



# **Ginnie Mae Guide 5500.3**

## **Chapter 31**

### **Project Loan Pools – Special Requirements**

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#### **31-8: POOLING OF MATURE PROJECT MORTGAGES: LM POOLS**

A project loan that meets the requirements of Section 31-5 may be pooled in an LM pool if it is (A) a project loan with a first scheduled payment date more than 24 months before the issue date of the securities or (B) a loan that has been modified by FHA after final endorsement.

LM loans may have level payment or non-level payment provisions.

#### ***(A) Required Pool Documents***

In addition to pool documents required in Section 31-12, an issuer of an LM pool must submit as part of the pool package a certification that:

- (1) Unless currently modified with the approval of FHA, the pooled loan has been a performing loan for the past 24 months without the need for an owner contribution.
- (2) Unless currently modified with the approval of FHA, the project has had sustained occupancy of at least 93 percent or, if the project is a nursing home, at least 90%, for the past 24 months.
- (3) Unless currently modified with the approval of FHA, the project has a reserve for replacement account funded in an amount equal to at least 24 monthly payments on the pooled loan.
- (4) The contract of mortgage insurance with FHA is in full force.
- (5) The mortgage is fully insured by FHA and not subject to a coinsurance contract.
- (6) Unless currently modified with the approval of FHA, the most recent project physical inspection performed within the past 12 months supports a satisfactory or higher rating, and all repairs have been made and inspected by the mortgagee and determined to be satisfactory.
- (7) If the mortgaged property is subject to a project-based rental subsidy contract, the loan has been marked-to-market by HUD.



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#### ***Section 31-8(A) (continued)***

- (8) Unless currently modified with the approval of FHA, the project has a minimum debt service coverage of 117 percent. For the exact wording of the certification, see Appendix III-21. The certification must be reproduced on the issuer's letterhead without revision. Ginnie Mae will not consider requests to revise, or engage in negotiations regarding, the terms of the certification. Ginnie Mae will not accept or approve a certification that has been revised by an issuer. Without the certification, the pool package is incomplete, and no security will be issued.

#### ***(B) Modified Loans: Additional Required Documents***

In addition to the pool documents required in Section 31-8 (A), modified pools are also subject to the following requirements:

- (1) The pool documents must include a copy of the modification agreement approved by FHA.
- (2) A new custodial file is required in connection with the issuance of a pool backed by a modified loan. Many of the documents will be transferred from the original custodial file, but if any of the underlying conditions represented by the original pool documents have changed, new or supplemental documents must be executed and placed with the document custodian. For example, if the title insurance company issues a new policy on the modified mortgage or an endorsement to the original policy to include coverage of the mortgage modification, the new title policy or the endorsement and the existing title policy must be provided to the document custodian.
- (3) All other project loan pooling requirements (not including documentation) remain the same. This includes the requirement that loans may not be removed from a pool, and the pool terminated, unless a loan is 90 days or more delinquent or the registered security holders unanimously agree to the pool's termination. If a pooled project loan is not 90 days or more delinquent, the issuer must comply with the procedures described in Section 20-3.

#### ***Section 31-8 (continued)***



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#### ***(C) Security Terminations***

##### **(1) Swaps**

All project loan security terminations that will involve a swap of a new security for the existing security, rather than a termination through payment of cash to the existing investor, must be approved by Ginnie Mae in writing prior to execution of the transaction.

In connection with a proposed swap, the issuer must submit all of the documents described in Sections 31-11 and 31-12.

##### **(2) Termination through payment of cash**

Terminations for cash are governed by Section 20-3.

#### ***(D) Securities***

Securities backed by mortgages described in this Section 31-8 are distinguishable from other Ginnie Mae project loan securities by the suffix “LM” in each certificate number. In case of securities backed by non-level payment LM pools, the following text must appear in the LM certificate: “The amortization schedule for the pooled mortgage provides for non-level monthly installments as described in the prospectus for this issue.”

It is important that securities backed by non-level payment LM loans be clearly differentiated from securities backed by level payment pools in all forward market and other transactions. In all communications relating to such transactions, issuers must clearly disclose that the securities to be delivered are backed by a non-level payment pool. Also, before delivery, issuers must obtain for their records from each dealer or investor to which the issuer is selling securities a confirmation statement clearly disclosing the nature of the pool underlying the securities to be delivered. An issuer must retain these confirmation statements as records subject to Ginnie Mae's right of inspection.

#### ***(Section 31-8 (continued))***



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#### ***(E) Prospectus***

The prospectus for non-level payment LM securities (Appendix IV-9) must include the material facts relating to the non-level payment feature of the project loan, in the format described below. If the project loan securities will be issued in exchange for construction loan securities, then the prospectus for the construction and permanent project loan securities (Appendix IV-10) must include the material facts relating to the non-level payment feature of the project loan.

The issuer must submit to Ginnie Mae for approval, no later than it would be required to submit pool documents for the issuance of non-level payment LM securities (whether project loan or construction loan securities), a narrative description of the material facts surrounding the non-level nature of anticipated payments on the securities. The description must be typed on the “Annex — Special Disclosure” under “Description of Non-level Payment Provisions” (see form HUD 1724 (Appendix IV-9)).